

# MARKETS TODAY

## Surprise, surprise



### Good morning

While the market's focus was expected to be primarily on the US CPI print for August, there was much more market action across the Atlantic with the Pound soaring on the back of a near term rate rise warning from the Bank of England.

While the BoE left its base rate steady at 0.25% as expected, it was the clear warning from Governor Carney who said he was with the majority of his fellow MPC members, most seeing the need for some withdrawal of stimulus likely 'over the coming months' if growth continues and underlying inflation continues to rise. Of course this warning is conditional on the response from consumers and business, including in the aftermath of this warning. But with two external members of the nine MPC members voting for a rate hike, there's a sufficiently strong view that's emerged that last year's emergency rate cut support needs to be reversed. At the end of the day, the market has taken seriously the BoE's clear warning that "some withdrawal of monetary stimulus was likely to be appropriate over the coming months in order to return inflation sustainably to target". The labour market will be a key metric to follow; clearly this week's lowest UK unemployment rate since the early 1970s resonated with the MPC.

The Pound soared, as did gilt yields. USD/GBP spiked higher by two big figures from 1.32 to about 1.34, sitting just that level this morning. AUD/GBP has pulled back to below 0.60, pressure also on EUR/GBP. The Pound was the clear-out-performer among the major FX leader board, up 1.41%. UK 10 year gilt yields rose 9bps to 1.23 as the market priced in a 50% chance of the BoE hiking at its next (2 November) meeting (up from a 10% chance), and 80% priced by the 14 December meeting (up from 36% pre-BoE).

US inflation for August (another of the diminishing pre-Harvey and Irma data set) printed toward the stronger side of expectations but there was not material USD relief rally to speak of, nor a surge in US Treasury yields. (More threats from the North Korean leader - the latest to turn the US into ashes - might have supported Treasuries selling to a degree.) Headline CPI rose 0.4% for annual growth of 1.9%, a tenth more than expected while core inflation in the month rose 0.2% as expected, but annual core inflation at 1.7% y/y was a tenth higher than the 1.6% consensus.

The result supported yields and the USD at the margin. The pricing for the 13 December meeting rose from a 50% chance to 57%. With the activity side of the economy holding up, this report plays to the prospect that inflation medium term holds the prospect of still being on track to gradually return to the 2% target. It will be interesting to see what changes if any Fed Chair Yellen and her colleagues make to their Fed funds rate forecasts at next week's FOMC meeting.

David de Garis, Director, Economics

The AUD had a see-saw pattern yesterday at lunchtime when it spiked after employment but run into a brick wall after the Chinese growth disappointments. It's tested somewhat lower overnight, but is back at 0.80 this morning. Market pricing for the RBA for 2018 pushed a little higher, now pricing in a 50% chance by the 3 April 2018 meeting, the market fully priced for a hike by the September 2018 meeting.

For the AUD, while the domestic rate story from employment was supportive, the softer-than-expected Chinese industrial production, retail sales and fixed assets investment trifecta gave the market pause for thought. These reports had the market thinking twice about whether the momentum of Chinese growth was already easing in contrast to the early month PMIS that pointed to a stronger picture. The LMEX index eased 0.42% overnight, while iron ore also pulled back by 3.36% to \$73.99/t, despite yesterday's Chinese reports revealing that Chinese crude steel output surged to 74.6mt, the third monthly record.

### Coming up

If the calendar is any guide then today's APAC calendar looks quieter than the frenetic pace of the past 24 hours or so. The Kiwi has moved little in the immediate aftermath of this morning's REINZ August report a week out from the election. Also to come is the BusinessNZ Manufacturing PMI for August (L: 55.4).

In the European session there are two ECB speakers, the ECB's Daniele Nuoy (Head of the Bank's Supervisory Board) speaking on "Shadow Banking: Intermediation beyond Banks", followed by the ECB's Sabine Lautenschlager speaking on "Banking Union: How to make existing pillars more effective?" Neither is focussed on ECB monetary policy. EC Trade and Labour Costs reports are due too.

The market tonight will take a side glance at the Empire State Manufacturing report for September. The real interest though will be reserved for the August Retail Sales report, closely followed by Industrial Production and the UoM Consumer Sentiment Survey preliminary reading for September. The market is looking for only 0.1% growth in headline Retail Sales, "ex autos and gas" sales are expected to rise a more solid 0.3% and the "control" group that feeds into GDP by 0.2%.

### Overnight

On global stock markets, the S&P 500 was -0.11%. Bond markets saw US 10-years -0.36bp to 2.18%. In commodities, Brent crude oil +0.22% to \$55.28, gold+0.4% to \$1,330, iron ore -3.4% to \$73.99, steam coal -0.3% to \$100.00, met. coal +0.5% to \$207.00. AUD is at 0.8002 and the range since yesterday 5pm Sydney time is 0.7956 to 0.8044.

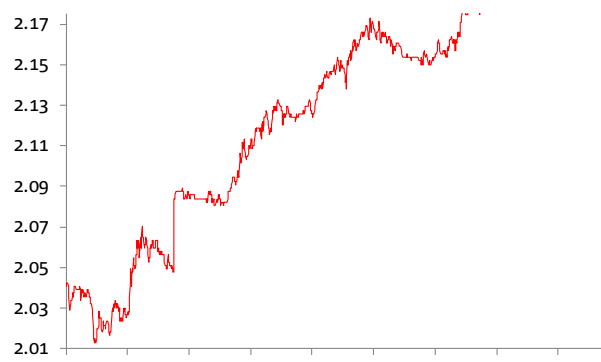
# Markets

AUD/USD - past week



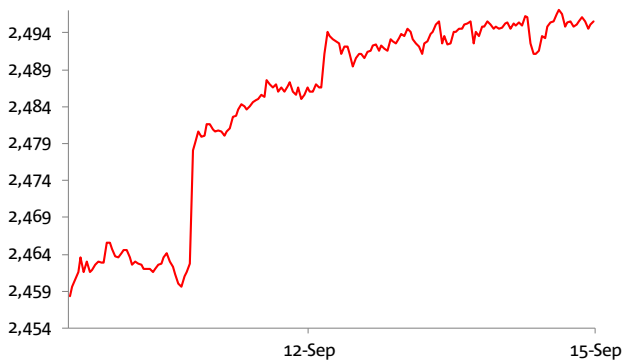
Source: Bloomberg.

US 10yr - past week



Source: Bloomberg.

S&P Future - past week



Source: Bloomberg.

WTI - past week



Source: Bloomberg.

### Foreign Exchange

	Indicative 24hr ranges (**)				Other FX	
	Last	% chge	Low	High	Last	% chge
AUD	0.8002	-0.5	0.7956	0.8044	HKD	7.8131 0.0
NZD	0.7227	-0.9	0.7184	0.7291	CNY	6.5560 0.2
EUR	1.1916	-0.6	1.1838	1.1990	SGD	1.3472 0.2
GBP	1.3396	1.0	1.3155	1.3406	IDR	13,251 0.4
JPY	110.21	0.2	109.95	111.04	THB	33.08 0.0
CAD	1.2180	0.3	1.2131	1.2239	KRW	1,133 0.4
AUD/EUR	0.6715	0.1	0.6701	0.6750	TWD	30.11 0.2
AUD/JPY	88.19	-0.3	88.00	88.74	PHP	51.15 0.3
AUD/GBP	0.5973	-1.5	0.5952	0.6080	CHF	0.96 0.4
AUD/NZD	1.1073	0.4	1.0996	1.1093	SEK	8.00 0.4
AUD/CNH	5.2295	0.1	5.2167	5.2562		

### Interest Rates

	Indicative Swap Rates				Benchmark 10 Year Bonds		
	Cash	3mth	2Yr	10Yr	Last	chge	Sprrd
USD	1.25	1.32	1.61	2.15	USD 10	2.18	-0.36
AUD	1.50	1.72	2.03	2.93	AUD 10	2.73	5.50 0.54
NZD	1.75	1.94	2.21	3.19	NZD 10	2.94	9.60 0.75
EUR	0.00	-0.33	-0.18	0.86	CAD 10	2.06	-1.10 -0.13
GBP	0.25	0.30	0.72	1.33	EUR 10	0.41	1.20 -1.77
JPY	-0.06	-0.03	0.03	0.23	GBP 10	1.23	8.50 -0.95
CAD	1.00	1.46	1.93	2.33	JPY 10	0.05	1.60 -2.13

### Equities

Major Indices			
	Last	% day	% y/y
Dow	22,203	0.20	23.1
S&P 500	2,496	-0.11	17.4
Nasdaq	6,429	-0.48	24.3
VIX	10.44	-0.57	-42.4
FTSE	7,295	-1.1	9.3
DAX	12,540	-0.1	20.8
CAC 40	5,225	0.1	19.6
Nikkei	19,807	-0.3	20.7
Shanghai	3,371	-0.4	12.3
Hang Seng	27,777	-0.4	19.0
ASX 200	5,739	-0.1	9.5

### Overnight Futures

	Last	Chge*
Australia		
3 mth bill	98.21	-1.00
3 Yr bond	97.8	3.00
10 Yr bond	97.25	-7.70
3/10 sprd	0.55	10.70
SPI	5742.0	4.0

\*Change in bps

### Commodities\*

	Last	% day
Oil (Brent)	55.28	0.2
Oil (WTI)	49.72	0.9
Oil (Tapis)	55.93	1.2
Gold	1329.60	0.4
CRB	183.31	0.2
GS Metals	357.2	-0.6
Aluminium	2068.3	-0.6
Copper	6457.3	-0.9
Nickel	11125.0	-1.4
Zinc	3010.0	-0.5
Ch. steel	3836.0	-2.8
Iron ore	74.0	-3.4
St. Coal	100.0	-0.3
Met.coal	207.0	0.5
Wheat Chic.	462.5	-0.1
Sugar	14.3	-0.4
Cotton	69.8	-0.3
Coffee	137.7	-0.1

Prob. of 25bps hike/cut at next meeting		
	bps	%
RBA	-0.2	-1.0%
FED	-1	-3.6%

Please note the high/low FX rates are only an indication. Please refer to your National Dealer for confirmation.

\* All near futures contracts, except CRB. GS Metals is Goldman Sachs industrial metals index. Metals prices are CME. Emissions: ICE Dec contracts, Euros

\*\* These are indicative ranges over the past 24 hours; please confirm rates with your NAB dealer

Last is around 6:30am Sydney

Source: Bloomberg

# CALENDAR

Country	Economic Indicator	Period	Forecast	Consensus	Actual	Previous	GMT	AEST
<b>Friday, 15 September 2017</b>								
NZ	BusinessNZ Manufacturing PMI	Aug				55.4	23:30	8:30
NZ	Non Resident Bond Holdings	Aug				61.7	4:00	13:00
EC	ECB's Nouy Speech in Finland						7:00	16:00
EC	Trade Balance SA	Jul		20.3		22.3	10:00	19:00
EC	Labour Costs YoY	2Q				1.5	10:00	19:00
US	Empire Manufacturing	Sep		18		25.2	13:30	22:30
US	Retail Sales Advance/Ex Autos MoM	Aug		0.1/0.5		0.6/0.5	13:30	22:30
CA	Existing Home Sales MoM	Aug				-2.1	14:00	23:00
US	Industrial/Manufacturing Production MoM	Aug		0.1/0.3		0.2/-0.1	14:15	23:15
US	U. of Mich. Sentiment/5-10Y Inflation expectations	Sep P		95/		96.8/2.5	15:00	0:00
US	Business Inventories	Jul		0.2		0.5	15:00	0:00
US	Baker Hughes U.S. Rig Count/Oil Rig Count	Sep 15		/		944/756	18:00	3:00
<b>Monday, 18 September 2017</b>								
CH	Foreign Direct Investment YoY CNY	Sep				2.3	9-18 Sep release	
NZ	Performance Services Index	Aug				56.0	23:30	8:30
UK	Rightmove House Prices MoM/YoY	Sep		/		-0.9/3.1	0:10	9:10
CH	Property Prices	Aug						
AU	New Motor Vehicle Sales MoM/YoY	Aug		/		-2.0/1.8	2:30	11:30
EC	CPI MoM/YoY	Aug		/		-0.5/1.3	10:00	19:00
EC	CPI Core YoY	Aug F				1.2	10:00	19:00
CA	Int'l Securities Transactions	Jul				-0.9	13:30	22:30
CH	FX Net Settlement - Clients CNY	Aug				-42.8		
CA	Bloomberg Nanos Confidence	Sep 15				58.4	15:00	0:00
US	NAHB Housing Market Index	Sep		67		68.0	15:00	0:00
UK	BOE Governor Carney Speaks at IMF in Washington, DC						16:00	1:00
US	Total Net TIC Flows/Net Long-term TIC Flows	Jul		/		7.7/34.4	21:00	6:00
<b>Tuesday, 19 September 2017</b>								
NZ	Westpac Consumer Confidence	3Q				113.4	23:00	8:00
AU	ANZ Roy Morgan Weekly Consumer Confidence Index	Sep 17				109.8	0:30	9:30
AU	House Price Index QoQ	2Q		1.9		2.2	2:30	11:30
AU	House Price Index YoY	2Q		9.5		10.2	2:30	11:30
AU	RBA Sept. Rate Meeting Minutes						2:30	11:30
EC	ECB Current Account SA	Jul				21.2	9:00	18:00
EC	Construction Output MoM/YoY	Jul		/		-0.5/3.4	10:00	19:00
GE	ZEW Survey Current Situation/Expectations	Sep		/		86.7/10.0	10:00	19:00
EC	ZEW Survey Expectations	Sep				29.3	10:00	19:00
CA	Manufacturing Sales MoM	Jul				-1.8	13:30	22:30
US	Housing Starts #/MoM	Aug		1180/2.2		1155.0/-4.8	13:30	22:30
US	Building Permits #/MoM	Aug		1220/-0.8		1223.0/-4.1	13:30	22:30
US	Current Account Balance	2Q		-110.46		-116.8	13:30	22:30
US	Import Price Index MoM/YoY	Aug		0.3/2.2		0.1/1.5	13:30	22:30
US	Export Price Index MoM/YoY	Aug		0.2/		0.4/0.8	13:30	22:30
<b>Wednesday, 20 September 2017</b>								
NZ	BoP Current Account Balance NZD/% GDP Yr	2Q		-0.9/-3		0.2/-3.1	23:45	8:45
JN	Trade Balance Adjusted	Aug		400		337.4	0:50	9:50
JN	Exports/Imports YoY	Aug		13/10.8		13.4/16.3	0:50	9:50
AU	Westpac Leading Index MoM	Aug				0.1	1:30	10:30
AU	Skilled Vacancies MoM	Aug				0.8	2:00	11:00
GE	PPI MoM/YoY	Aug		/		0.2/2.3	7:00	16:00
JN	Convenience Store Sales YoY	Aug				0.0	8:00	17:00
UK	Retail Sales Ex Auto Fuel MoM/YoY	Aug		0.1/1.4		0.5/1.5	9:30	18:30
UK	Retail Sales Inc Auto Fuel MoM/YoY	Aug		0.2/1.2		0.3/1.3	9:30	18:30
US	MBA Mortgage Applications	Sep 15				9.9	12:00	21:00
AU	RBA's Ellis Gives Speech in Sydney							
US	Existing Home Sales #/MoM	Aug		5.47/0.55		5.4/-1.3	15:00	0:00
US	FOMC Rate Decision (Lower/Upper Bound)	Sep 20		1/1.25		1.0/1.25	19:00	4:00
<b>Thursday, 21 September 2017</b>								
NZ	GDP SA QoQ/YoY	2Q		0.8/2.5		0.5/2.5	23:45	8:45
NZ	Net Migration SA	Aug				5800.0	23:45	8:45
AU	RBA FX Transactions Market	Aug				984.0	2:30	11:30
NZ	Credit Card Spending MoM/YoY	Aug		/		0.9/7.2	4:00	13:00
JN	BOJ Policy Balance Rate/10 Yr yield target	Sep 21		/		-0.1/0.0		
JN	BOJ Monetary Policy Statement							
JN	All Industry Activity Index MoM	Jul		-0.1		0.4	5:30	14:30
JN	BOJ Kuroda speaks at press conference after MPM						7:30	16:30
AU	RBA Governor Lowe Gives Speech in Perth							
EC	ECB Publishes Economic Bulletin						9:00	18:00
UK	UK Finance Loans for Housing	Aug				41587.0	9:30	18:30
UK	Public Finances (PSNCR)/Central Government NCR	Aug				-3.9	9:30	18:30
UK	Public Sector Net Borrowing/PSNB ex Banking Groups	Aug				-0.8	9:30	18:30
CA	Wholesale Trade Sales MoM	Jul				-0.5	13:30	22:30
US	Initial Jobless Claims	Sep 9		300		298	13:30	22:30
US	Philadelphia Fed Business Outlook	Sep		17		18.9	13:30	22:30
US	FHFA House Price Index MoM	Jul				0.1	14:00	23:00
US	Bloomberg Consumer Comfort/Economic Expectations	Sep 10		/		52.6/54.0	14:45	23:45
EC	Consumer Confidence	Sep A				-1.5	15:00	0:00
US	Leading Index	Aug		0.2		0.3	15:00	0:00
US	Household Change in Net Worth	2Q				2347.0	17:00	2:00
<b>Upcoming Central Bank Interest Rate Announcements</b>								
US	Federal Reserve	21-Sep	1.00-1.25%	1.00-1.25%		1.00-1.25%		
Japan	BoJ	21-Sep	-0.1%	-0.1%		-0.1%		
New Zealand	RBNZ	28-Sep	1.75%	1.75%		1.75%		
Australia	RBA	3-Oct	1.50%	1.50%		1.50%		
Europe	ECB	26-Oct	-0.4%	-0.4%		-0.4%		
Canada	BoC	26-Oct				1.00%		
UK	BOE	2-Nov				0.25%		

GMT: Greenwich Mean Time; AEST: Australian Eastern Standard Time

## CONTACT DETAILS

### Authors

David de Garis  
Director, Economics  
+61 3 8641 3045  
david.degaris@nab.com.au

Ray Attrill  
Global Co-Head of FX Strategy  
+61 2 9237 1848  
ray.attrill@nab.com.au

Rodrigo Catril  
Currency Strategist  
+61 2 9293 7109  
rodrigo.h.catril@nab.com.au

Tapas Strickland  
Economist  
+61 2 9237 1980  
tapas.strickland@nab.com.au

### Markets Research

Peter Jolly  
Global Head of Research  
+61 2 9237 1406  
peter.jolly@nab.com.au

### Group Economics

Alan Oster  
Chief Economist  
+61 3 8634 2927  
alan\_oster@national.com.au

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